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# WEEKLY SUMMARY



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## H I G H L I G H T S

The Soviet agreement to resume four-power discussions on Germany eclipsed all other developments of the week affecting US security interests. It is still too early, however, to estimate how far the USSR will be willing to go in obtaining a settlement of the German question (see page 2). Soviet intentions to gain eventual control over Germany remain unchanged. Meanwhile, such indications of Soviet sincerity as the intensification of the "peace campaign" and a relaxation of Soviet pressure on the western nations bordering the Soviet orbit are balanced by continuing Soviet preparations to establish an east German state, recent Communist statements calling for militant action, and anti-US May Day propaganda.

In other areas of the world, the Palestine peace conference at Lausanne has had an unpropitious beginning as a result of Israeli intransigence regarding the problem of Arab refugees (see page 6); the Chinese Communists continue their methodical, unopposed military conquest of the Yangtze valley area (see page 8); and Dutch-Republican negotiations in Batavia (see page 11) are progressing in an atmosphere of surprising cordiality and may soon result in restoration of the Republic at Jogjakarta.

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## E A S T E R N   E U R O P E

## SOVIET UNION

German Objectives    Soviet agreement to lift the Berlin blockade and enter into four-power discussions on Germany does not represent any change in the Soviet objective to establish a Germany which will eventually fall under Soviet domination. It is still too early, however, to predict the sincerity of the Soviet desire to achieve an understanding with the West on Germany or the extent of the concessions the USSR would make in order to reach an agreement. The lifting of the blockade has been accompanied by a relaxation of Soviet pressure throughout the western periphery of the Soviet orbit and by an intensification of the Soviet propaganda "peace" campaign. On the other hand, May Day Communist propaganda savagely attacked the western powers, recent Communist statements have called for active preparation for militant action, and steps are still being taken toward the establishment of an East German state. Progress of the CFM alone, therefore, will demonstrate whether the USSR: (1) has agreed to enter into four-power discussions to sound out the western position and retrieve itself from the unfavorable situation created by the Berlin blockade; or (2) now considers it a sounder strategy to seek a "neutral" Germany in order to delay the final consolidation of the West German state and give the USSR some voice in all Germany.

CFM Proposals    Initial Soviet proposals at the forthcoming CFM will be designed to appeal strongly to an increasingly articulate German nationalism. After attempting to secure a commitment on postponing the West German state, the USSR will probably propose a general settlement for all Germany based on a return to four-power cooperation and the Yalta and Potsdam agreements. The Soviet terms

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## SOVIET UNION

will include the principal demands of the 1948 Warsaw communique which advocated: (1) establishment of a centralized government for all Germany; (2) conclusion of a peace treaty and withdrawal of occupation troops within one year; and (3) control over Ruhr production and distribution by the US, the USSR, the UK, and France. Depending primarily upon the intensity of the Soviet desire to obtain the withdrawal of US troops from Europe, the USSR may later in the negotiations seek a "compromise" agreement. Such a compromise might involve the acceptance of a federal government composed of the East and West German zonal organizations. The USSR would insist, however, that such a federation be established in a manner which, in addition to not threatening Soviet political and economic control in East Germany, would provide for sufficient Soviet influence in West Germany to offer reasonable prospects for subsequently establishing a centralized Germany not wholly western-oriented and susceptible to eventual Soviet domination.

**East German State** Despite Soviet agreement to resume discussions on Germany, the USSR is continuing its preparations for establishing an East German state. The executive agencies of the East German government have long been in operation, and elections for the Peoples' Congress in mid-May will provide a pseudo-democratic legislative body capable of functioning as a parliament. In addition to being a significant step toward the Soviet aim of eventual economic integration of East Germany with Poland and Czechoslovakia, the recently announced East German-Polish trade agreement (which is aimed at increasing 1949 trade between East Germany and Poland to \$152 million or doubling the volume of goods exchanged by the two countries during 1948) is another move toward the formalization of an East German

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## SOVIET UNION

government. The trade agreement was negotiated by the East German authorities, thus reflecting the Soviet policy of continuing to grant more governmental authority to the East German economic administration, with the possible idea of eventually making the East German regime a full member of the Council of Economic Mutual Assistance. These Soviet actions are designed to build up the status and importance of the local administrative agencies in the eastern zone of Germany and can be used by the USSR both as a lever in negotiating with the western powers at the coming Council of Foreign Ministers and as a counter to the establishment of a West German state. In the event of an impasse in the CFM, the USSR will have the machinery necessary for the establishment of a Satellite regime in eastern Germany.

**"Peace" Campaign** Simultaneously with the lifting of the Berlin blockade, and in an apparent effort to forestall further western consolidation, the Kremlin is intensifying its "peace" campaign throughout the western periphery of the Soviet orbit. The Soviet bloc has again extended feelers toward accommodation with the West; it has at least tapered off its past intransigent attitude in numerous cases. Soviet bloc countries have recently made concerted attempts to expand trade with the West and seek western financial assistance in an effort to mitigate the unfavorable impact of western economic pressure. Hungarian officials have shown a markedly more friendly attitude toward the US Embassy in Hungary; Albania has granted diplomatic recognition to Italy; the Greek guerrillas have made a rather broad peace offer ostensibly intended to lay the groundwork for future negotiation of the Greek problem (see page 14); Soviet pressure on Iran has apparently tapered off, and the USSR has renewed its offer to discuss trade with that country; and Soviet

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## SOVIET UNION

pressure on Scandinavia has markedly decreased in comparison with that of the past few months. These developments may be designed to lull western suspicion at the forthcoming CFM meeting. The course of quadripartite discussions on Germany will determine whether the USSR is merely waging another campaign in its "peace offensive," or whether the Kremlin is laying the groundwork for achieving a temporary accommodation with the West.

**May Day Slogans** The savagery with which the US was attacked in Moscow's May Day orders would seem to belie Soviet sincerity in re-opening discussions on Germany and in making overtures on other fronts. May Day propaganda, however, is designed for home consumption and for guidance to Communist parties throughout the world. In this context, the May Day slogans are a logical development of the Kremlin's principal psychological weapon--the peace campaign. For the faithful, the US must still be branded as the leading capitalist nation dedicated to the overthrow of the Soviet Union, while the common peace-loving masses throughout the world are pictured as sharing the Soviet desire for peace. Thus, the slogan that "the friendship between the peoples of the USSR, the US, and the UK forms the best guarantee for a lasting peace" is directed primarily toward driving a wedge between these peace-loving masses and their war-mongering governments.

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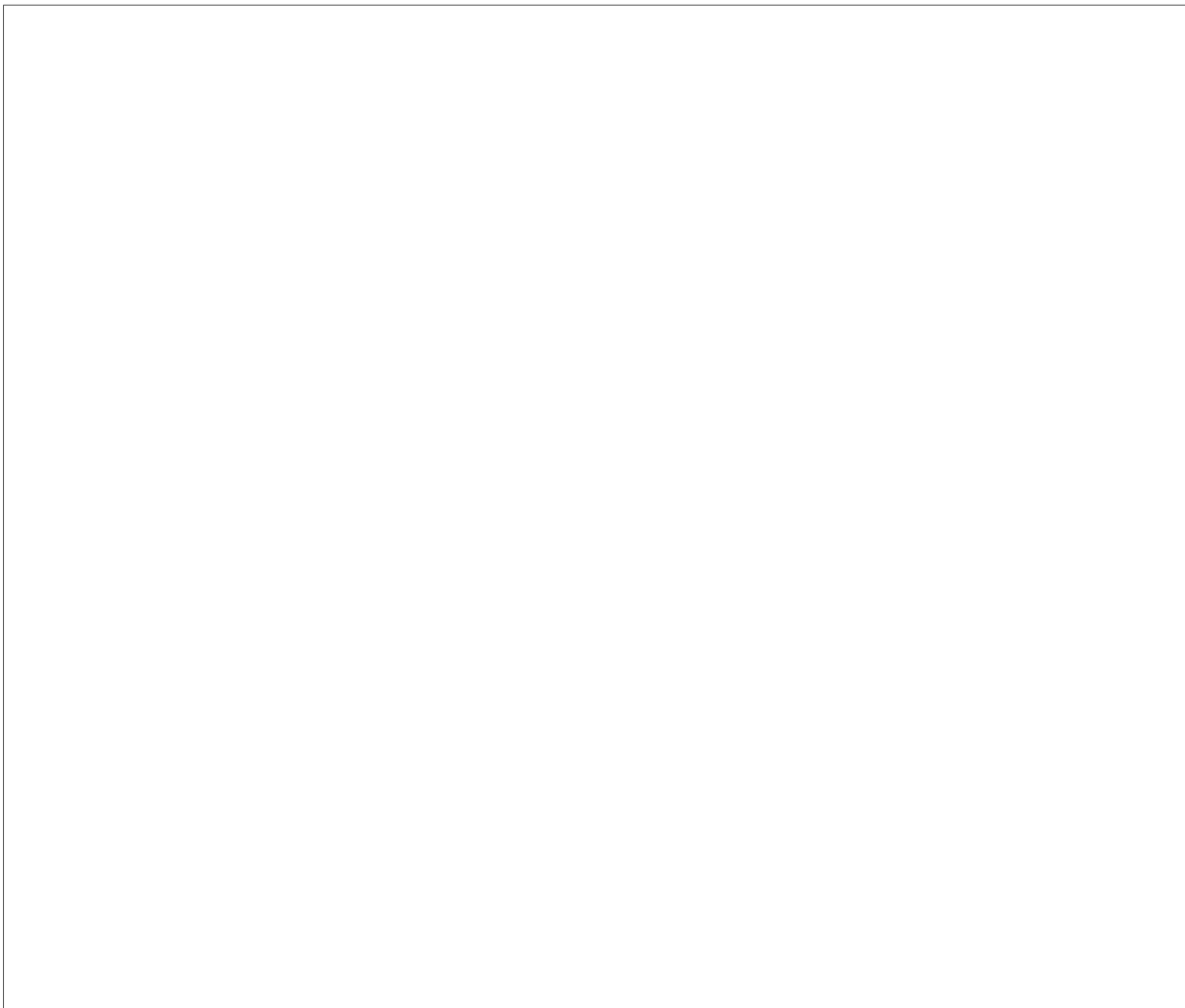


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NEAR EAST - AFRICA

ARAB STATES

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PALESTINE

Peace Talks    The Lausanne Conference has had an unpropitious beginning as a result of Israel's refusal to make a conciliatory statement in regard to the possible return of some of the Arab refugees to Israel. The Israeli representatives

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PALESTINE

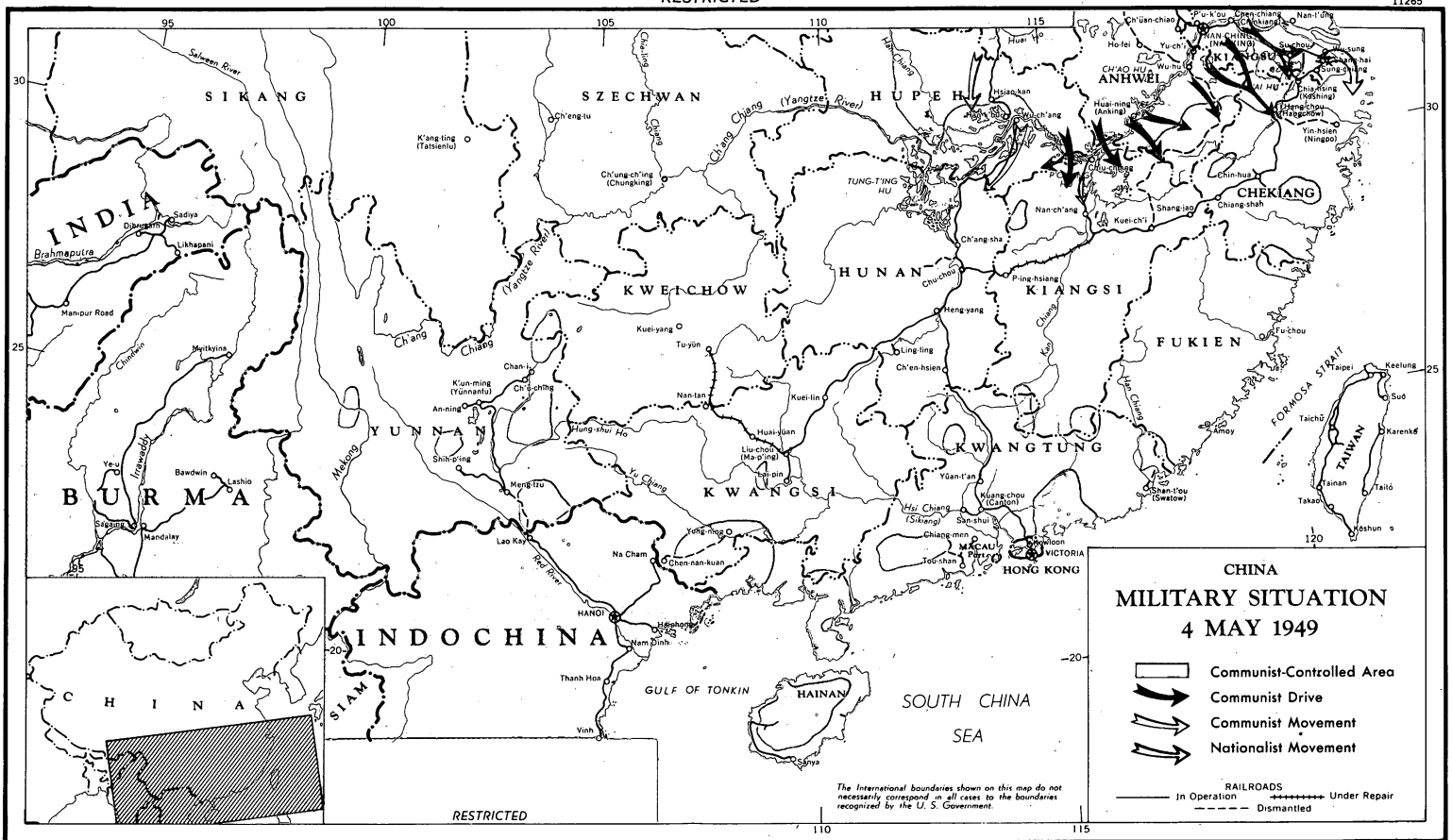
insist that this issue must be discussed as a part of the general peace settlement. The Arabs, however, refuse to negotiate any of the other issues until Israel has admitted at least partial responsibility for the refugees and has agreed to accept the return of at least a token number of them. Unless Israel can be persuaded to modify its present position, neither an Arab-Israeli peace settlement nor Israeli membership in the UN is likely to be achieved before the next regular session of the General Assembly in September.

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**SECRET****F A R E A S T****CHINA**

**Nationalist Resistance** Nationalist China continues to be characterized by military withdrawal and political fragmentation. Despite vows to defend Shanghai to the last, Nationalist regular forces will probably make every effort to withdraw by sea to South China and Taiwan, leaving only local militia to put up a token defense of the city. Although the Communists may permit conditions in Shanghai to disintegrate further and may attempt to discredit the National Government by Communist-instigated disorders in the city, they will probably capture the city before rioting seriously damages its major industries. Meanwhile, in South China Chiang Kai-shek is consolidating his forces. He will probably withdraw the remaining Nationalist forces from Tsingtao to his resistance base on Taiwan. Simultaneously, Acting President Li Tsung-jen in Kweilin is apparently attempting to woo at least some of the Kwangtung generals away from Chiang. Li is also requesting US aid to bolster his resistance efforts in Kwangsi Province. Li's forces will soon be strengthened by the addition of Pai Chung-hsi's forces, which are expected to offer little more than token resistance at Hankow and to withdraw under heavy Communist pressure.

**Communist Plans** Chinese Communist forces are continuing their methodical, unopposed military conquest of the Yangtze Valley, while plans are gradually being developed for expanding Communist political control over the area. In the Wuhu-Chiuchiang sector, the Communists are continuing their mopping-up operations as they drive southeast toward the Chekiang border. Other Communist forces have reportedly crossed the Yangtze west of Chiuchiang and are driving

**SECRET****CHINA**

south toward Nanchang and west toward Hankow. The easy Communist occupation of Hangchow now leaves Shanghai isolated and threatened with food shortages and civil disorders far more severe than those experienced in Nanking. On the political front, the Communists are laying the groundwork for a Political Consultative Conference which will organize a new government claiming jurisdiction over all China. Although the Communists desire to gain international recognition for this new government and need to develop foreign trade, they have not yet modified significantly their arrogant and uncooperative attitude toward foreign diplomatic and consular personnel.

**KOREA**

**US Troop Withdrawal** Although moderate Korean groups have consistently advocated the withdrawal of all occupation troops from South Korea as a prerequisite to a unified Korea, President Rhee's announcement that withdrawal of US troops was being contemplated has alarmed rightist elements. Communist success in China has aggravated the fear in rightist circles that US withdrawal would permit an invasion of South Korea by an overwhelming combination of North Korean and Chinese Communists. Although President Rhee has admitted that Korean security forces could maintain internal stability, he is attempting to procure specific guarantees of US material and military aid, as well as a US guarantee of Korean political integrity. Unless Rhee receives early assurances of concrete military aid, he may publicly brand the withdrawal of US troops as a betrayal of the Korean people, thus adding to the general uncertainty and fear prevailing within the Republic. Under such circumstances, the withdrawal of US troops would almost certainly bring about the eventual downfall of the present South Korean Government.

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**SECRET****BURMA**

**Foreign Aid** The British Commonwealth's recent agreement to extend financial and military assistance to the present Burmese Government can do little more than restore a semblance of stability in Burma. The restoration of full economic and political health will be a slow and painful process. Conditions attached to the Commonwealth agreement and accepted by the Burmese Government specify that the government: (1) conclude an armistice with the Karens and other non-Communist insurgent elements; (2) effectively rehabilitate government finances; and (3) permit supervision of these actions by the British, Indian, and Pakistani Ambassadors to Burma. Fulfillment of these conditions, however, is most unlikely. It is extremely doubtful that the Government can placate the Karens without losing more of its presently diminishing Burman support, and the Peoples Volunteer Organization (PVO) has recently increased its cooperation with the Communists. The Government will have difficulty in making effective use of the projected military aid because its military forces are dispersed and military leaders are not amenable to foreign suggestions. In addition, the Government is virtually incapable of putting its finances in order with or without foreign advice.

**SIAM**

**Political Unrest** The formation of a new Siamese Government, which is scheduled to follow parliamentary elections in early June, may be complicated if anti-government elements again attempt to overthrow the Phibul regime. Recent reports that these elements were disaffecting provincial troops and aggravating existing animosities between the armed services have been responsible for mounting political tension in Bangkok. Reflecting this tension, on 29 April Premier Phibul broadcast an appeal for national unity, warning against the outbreak of civil war in Siam and stating that the Government would show no mercy in suppressing insurrectionists.

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**SECRET****INDONESIA**

**Talks Continue** While Dutch and Republican delegates continue their negotiations at Batavia in an atmosphere of surprising cordiality, final accord is being delayed by: (1) disagreement over the conditions attached to the restoration of the Republic to Jogjakarta; and (2) failure of the Republicans to agree among themselves and with the Dutch on the amount of territory to be restored to them initially. The Dutch Foreign Office's representative, Van Roijen, has assumed firm control of the negotiations and has shown a sincere desire to reach a compromise, despite the influence of the old-guard Dutch civil and military officials whose past intransigence has frequently jeopardized negotiations. These officials are expected to offer growing opposition to Van Roijen as the negotiations proceed, and there is always the possibility that they may later sabotage Van Roijen's efforts in their implementation of agreements reached. Meanwhile, it appears likely that the Republicans will resolve their internal differences. If they can, in addition, satisfy the Dutch of their intention to issue an effective cease-fire order and to attend The Hague conference following Republic restoration, practical steps can then be taken toward restoring the Republican government at Jogjakarta. If a preliminary agreement on restoration takes place, the United Nations Commission for Indonesia is planning to submit a favorable report to the UN Security Council, in order to forestall prolonged debate of the Indonesian question in the current session of the General Assembly.

**PHILIPPINES**

**Massacre Aftermath** The massacre on 28 April of Mrs. Aurora Quezon and members of her family by Hukbalahap guerrillas appears to have so genuinely alarmed President Quirino that he has announced plans to expand Philippine

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**PHILIPPINES**

armed forces to 300,000 men. Such an expansion would raise the military force to ten times its present strength and would greatly exceed the Republic's capabilities. Although other more realistic measures to strengthen government forces may be undertaken, it is unlikely that such measures can completely eliminate the sporadic lawlessness of the Hukbalahap guerrillas in central Luzon. The recent massacre will provide Quirino's opponents in the November presidential elections with excellent campaign material by enabling them to refute Quirino's recent claims that law and order have been restored.

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**W E S T E R N   H E M I S P H E R E**

**DOMINICAN REPUBLIC**

**Legion Activity    The possibility of renewed revolutionary activities by the Caribbean Legion has been raised by Dominican Dictator Trujillo who believes that the Legion is planning to launch an air and sea attack against his regime from Guatemala. Although it is doubtful that plans for an attack are as integrated and well-formulated as Trujillo seems to believe, the Caribbean Legion may become more active following a recent period of inactivity during which its organization and materiel were kept intact.**

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## GREEK GUERRILLA PEACE PROPOSALS

The new guerrilla peace proposals indicate not so much a quickening of guerrilla interest in peace as a Communist desire to exploit the Greek problem as a weapon in the general "peace" offensive. The immediate aim of the proposals is to improve the guerrilla position in Greece through the pressure of misinformed world opinion and the UN. The danger is that the case will be mishandled by the UN, particularly by UNGA President Evatt, to the great detriment of the western position in Greece.

Following Evatt's recent announcement that he intended to resume the Balkan conciliation efforts which proved fruitless in late 1948, the Greek guerrillas addressed a new appeal to him and the UN for discussion of a possible settlement of the Greek problem based on concessions by both sides. A guerrilla representative in Czechoslovakia has sought to come to New York in order to further the case. Even if Evatt is not officially entrusted with the matter, the UN may have to deal with the now well-publicized new Communist proposal for Greece.

Although the proposals may appear more conciliatory than earlier Greek Communist peace overtures, they by no means represent an abandonment of the familiar long-range objective of a Communist Greece. They coincide generally with the Paris and Prague "peace" congresses, but also are aimed at countering a recently reported British suggestion for increased aid to Greece and at dampening US Congressional enthusiasm for the Greek aid program. Curtailment of this program has long been a major Communist objective. If, in combination with this, the Greek guerrillas could force a compromise peace, they would not only gain much more than

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their present somewhat diminished military capabilities make possible but would also reinforce the appearance of Communist good intentions in Europe.

The duplicity of the Communist offer may be seen from the fact that the Greek guerrilla command has recently appeared as militant as ever. The guerrillas, with substantial Albanian assistance, in early April launched a new major offensive in the Grammos area, and have apparently prepared for intensified activity there and elsewhere in northern Greece. At the same time, the Greek Communists have been sharpening the economic, political, and subversive instruments by which they hope ultimately to come to power in the event of a compromise peace. Thus, while it is probable that the Greek Communists do not expect an actual settlement to result from their latest peace offer, they will be prepared to exploit any such opportunity to the utmost.

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**SECRET****RIISING LEFTIST SENTIMENT IN JAPAN**

The economic hardships for the Japanese population resulting from the SCAP-sponsored austerity program for expediting Japanese economic recovery will provide additional ammunition for dissident left-wing elements and may eventually lead to a consolidation of the left-wing political parties. The fear that the conservative government will administer the austerity program to the advantage of the vested interests is the principal factor which could lead to a consolidation of the left-wing political parties in Japan. If such a left-wing coalition does take place, it will almost certainly be dominated by the Communists, and Communist capabilities for disturbing the present political balance will be vastly increased. As a result of gains in the January national elections, the Communists had already strengthened their potential for becoming the principal opposition group in Japan. The Communists can now be expected to use their increased prestige and power in the Diet to embarrass the Yoshida regime by exploiting the new grievances of trade union and farm elements. Moreover, the Communists will increase their efforts to gain the support of small and medium entrepreneurs adversely affected by the economic stabilization program and to form a united front of "anti-capitalist" forces.

Meanwhile, Socialist resistance to such Communist proffers may weaken. Since their defeat in the January elections, the Socialists have moved considerably to the left in an effort to rebuild the party on a firmer popular basis. This re-orientation is revealed both by changes in leadership and party structure which took place at the April party convention and by the declaration of the new Secretary General advocating "localized joint action" with the Communists. Although the Socialists will thus probably work more closely with the Communists, a full-fledged alliance is unlikely in the near future because of traditional Socialist distrust of Communist objectives, Socialist adherence to parliamentary traditions, and anti-Communist sentiment in the trade unions.

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**SECRET****THE SITUATION IN BOLIVIA**

Bolivia seems relatively quiet under the state of siege declared by President Hertzog following election disorders. In these elections, the Republican Socialist Union (PUSR), the official government party, is conceded to have improved its position by winning a majority in the Bolivian lower house while strengthening its control of the upper house, thus making continued Bolivian cooperation with US policies and objectives in the area more likely. Although the 5 March formation of a coalition Cabinet and improvement of relations with Peru and Argentina during the past three months have strengthened the Hertzog Government, obvious government weaknesses still exist, as demonstrated by the postelection clashes led by the extremist Nationalist Revolutionary Movement (MNR), by serious labor unrest at the tin mines, and by increasing signs of forthcoming economic dislocations.

Although Hertzog's government party squeezed through with a slight majority in both chambers of Congress, the sharp gains made by the extremist MNR and the recent MNR-sponsored disturbances demonstrate that the government must still reckon with the possibility of revolutionary coups. The Government cannot even discount the possibility of collaboration between the rightist MNR and leftist Partido Izquierda Revolucionario (PIR). Political opportunism in Bolivia remains so powerful that such cooperation is likely at any time that the prospects for success of a joint effort appear sufficiently promising.

In addition to political disagreements, the Hertzog Government is confronted with serious labor troubles, instigated to a large extent by the MNR and the PIR, both of which have substantial followings among labor groups. Labor disorders

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and unrest have centered chiefly at the tin mines, where there have been riots, minor sabotage, and beatings of mine officials and journalists. The recent announcement by mine operators that a reduction in mining operations would necessarily follow any wage increase granted by the government has further reduced the prospects for an early solution of the labor problem.

Meanwhile, the Bolivian economy, though at present fairly satisfactory, is threatened with serious dislocations. A decrease in world mineral prices has caused considerable pessimism. Management, aware for some years that the cost of mineral production in Bolivia was so high that heavy production could be maintained only as long as world prices remained high, has failed to make adequate reinvestments in capital equipment. Thus, any drop in world mineral prices will result in the curtailment of marginal mining operations, causing not only more labor unrest but a reduction in the export of tin to the US, which now obtains a fourth of its tin requirements from Bolivia. Bolivia's economic future, therefore, is far from bright. Government plans for the development of transportation and agricultural production, even if implemented, could serve only to soften the economic blow of a major decline in mining, Bolivia's principal industry.

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